

**CITY AND COUNTY OF SAN FRANCISCO  
HEALTH SERVICE SYSTEM**

Communication with those Charged with Governance  
Year Ended June 30, 2023



Certified  
Public  
Accountants

October 31, 2023

Members of the Health Service Board  
Honorable Mayor and Members of the Board of Supervisors  
City and County of San Francisco, California

We are pleased to present this report related to our audit of the financial statement of the San Francisco Health Service System Other Employee Benefit Trust Fund (the Trust), managed by Health Service System (the System), a department of the City and County of San Francisco, as of and for the year ended June 30, 2023. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for the Organization's financial reporting process.

This report is intended solely for the information and use of the Health Service Board, the Mayor, the Board of Supervisors, and management, and is not intended to be, and should not be, used by anyone other than these specified parties. It will be our pleasure to respond to any questions you have about this report. We appreciate the opportunity to continue to be of service to the System.

*Macias Gini & O'Connell LLP*  
Walnut Creek, California

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## REQUIRED COMMUNICATIONS

Auditing standards generally accepted in the United States of America (AU-C 260, *The Auditor's Communication With Those Charged With Governance*) require the auditor to promote effective two-way communication between the auditor and those charged with governance. Consistent with this requirement, the following summarizes our responsibilities regarding the System's financial statement audit as well as observations arising from our audit that are significant and relevant to your responsibility to oversee the financial and related compliance reporting process.

### **Our Responsibilities With Regard to the Financial Statement Audit**

Our responsibilities under auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States have been described in our engagement letter dated July 1, 2023. Our audit of the System's financial statements does not relieve management or those charged with governance of their responsibilities, which are also described in that letter.

### **Overview of the Planned Scope and Timing of the Financial Statement Audit**

We conducted our audit consistent with the planned scope and timing in our engagement letter dated July 1, 2023 and as verbally communicated to the chair of the Health Service Board on June 7, 2023.

### **Accounting Policies and Practices**

#### **Preferability of Accounting Policies and Practices**

Under accounting principles generally accepted in the United States of America, in certain circumstances, management may select among alternative accounting practices. In our view, in such circumstances, management has selected the preferable accounting practice.

#### **Adoption of, or Change in, Accounting Policies**

Management has the ultimate responsibility for the appropriateness of the accounting policies used by the System. The System did not adopt any significant new accounting policies, nor have there been any changes in existing significant accounting policies during the current period.

#### **Significant Accounting Policies**

We did not identify any significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

#### **Significant Unusual Transactions**

We did not identify any significant unusual transactions.

#### **Management's Judgments and Accounting Estimates**

Summary information about the process used by management in formulating particularly sensitive accounting estimates and about our conclusions regarding the reasonableness of those estimates are listed in the following table.

## Significant Accounting Estimates

### Reserves for Claims – medical, prescription drugs and dental

Accounting policy	Reserves for claims are based on actual claim lag reports and historical payment patterns.
Management’s estimation process	Management’s estimate of reserves for claims is based on actuarial calculations of claims reported and in process of payment and assumptions of claims incurred but not yet reported. These calculations are performed by management’s third-party actuarial firm.
Basis for our conclusion on the reasonableness of the estimate	MGO contracted our own actuarial specialist to review the work of management’s actuarial specialist. We evaluated the key factors and assumptions used to develop the accounting estimates and determined that they are reasonable in relation to the basic financial statements taken as a whole.

### Audit Adjustments and Uncorrected Misstatements

There were no audit adjustments made to the original trial balance presented to us to begin our audit.

We are not aware of any uncorrected misstatements other than misstatements that are clearly trivial.

### Observations About the Audit Process

#### Disagreements With Management

We encountered no disagreements with management over the application of significant accounting principles, the basis for management’s judgments on any significant matters, the scope of the audit or significant disclosures to be included in the System’s financial statements.

#### Consultations With Other Accountants

We are not aware of any consultations management had with other accountants about accounting or auditing matters.

#### Significant Issues Discussed With Management

No significant issues arising from the audit were discussed or were the subject of correspondence with management.

#### Significant Difficulties Encountered in Performing the Audit

We did not encounter any significant difficulties in dealing with management during the audit.

#### Difficult or Contentious Matters That Required Consultation

We did not encounter any significant and difficult or contentious matters that required consultation outside the engagement team.

### Shared Responsibilities for Independence

Independence is a joint responsibility and is managed most effectively when management, audit committees (or their equivalents), and audit firms work together in considering compliance with American Institute of

Certified Public Accountants (AICPA) and *Government Accountability Office (GAO)* independence rules. For MGO to fulfill its professional responsibility to maintain and monitor independence, management, the Health Service Board, and MGO each play an important role.

### **Our Responsibilities**

1. AICPA and GAO rules require independence both of mind and in appearance when providing audit and other attestation services. MGO is to ensure that the AICPA and GAO's General Requirements for performing non-attest services are adhered to and included in all letters of engagement.
2. Maintain a system of quality management over compliance with independence rules and firm policies.

### **The System's Responsibilities**

1. Timely inform MGO, before the effective date of transactions or other business changes, of the following:
  - a. New affiliates, directors, or officers.
  - b. Changes in the organizational structure or the reporting entity impacting affiliates such as subsidiaries, partnerships, related entities, investments, joint ventures, component units, jointly governed organizations.
2. Provide necessary affiliate information such as new or updated structure charts, as well as financial information required to perform materiality calculations needed for making affiliate determinations.
3. Understand and conclude on the permissibility, prior to the Organization and its affiliates, officers, directors, or persons in a decision-making capacity, engaging in business relationships with MGO.
4. Not entering into arrangements of nonaudit services resulting in MGO being involved in making management decisions on behalf of the Organization.
5. Not entering into relationships resulting in close family members of MGO covered persons, temporarily or permanently acting as an officer, director, or person in an accounting, financial reporting or compliance oversight role at the Organization.

**EXHIBIT A**

**Recent Accounting Pronouncements**

## RECENT ACCOUNTING PRONOUNCEMENTS

The following accounting pronouncements have been issued as of October 31, 2023 but are not yet effective and may affect the future financial reporting by the System.

Pronouncement	Summary
GASB Statement No. 99, Omnibus 2022	<p>The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees.</p> <p>The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for the System’s fiscal year ending June 30, 2024.</p>
GASB Statement No. 100, Accounting Changes and Error Corrections—an amendment of GASB Statement No. 62	<p>The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability.</p> <p>Statement No. 100 is effective for the System’s fiscal year ending June 30, 2024.</p>
GASB Statement No. 101, Compensated Absences	<p>The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures.</p> <p>Statement No. 100 is effective for the System’s fiscal year ending June 30, 2025.</p>